



**UNIVERSITI PUTRA MALAYSIA**

**A PERCEPTION ON POST IMPLEMENTATION OF  
SELF ASSESSMENT TAX SYSTEM ON  
SELECTED COMPANIES IN EAST COAST MALAYSIA**

**ZAHARAH SALWATI BT BABA**

**GSM 2008 12**

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A PERCEPTION ON POST IMPLEMENTATION OF SELF ASSESSMENT TAX  
SYSTEM ON SELECTED COMPANIES IN EAST COAST MALAYSIA

By

ZAHARAH SALWATI BT BABA

Thesis Submitted in Fulfillment of the Requirement for the Degree of Master  
Science in Graduate School of Management  
Universiti Putra Malaysia

July 2008

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## DEDICATION

To both of my parents; Haji Baba and Hajjah Rona, my husband; Hasni Omran,  
my lovely kids; Mohammad Faraihan, Allahyarham Mohammad Fakhrudeen,  
Arishya Nabilah and Aliyah Maisarah ; and  
all my brothers and sisters.

Abstract of thesis presented to the Senate of Universiti Putra Malaysia in  
fulfillment of the requirement for the Degree of Master of Science

**A PERCEPTION ON POST IMPLEMENTATION OF SELF ASSESSMENT  
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**ZAHARAH SALWATI BINTI BABA**

**July 2008**

**Chairman : Dr Abu Sofian Bin Yaacob**

**Faculty : Graduate School of Management**

This study examined taxpayer's perception and acceptability towards the self assessment tax system. The self assessment tax system applies to all companies and was implemented in 2001.

This empirical study covered three states – Terengganu, Kelantan and Pahang, involving 210 companies. Questionnaires were used to collect the data used in this study.

Based on the findings of this research, it can be concluded that the implementation of self assessment system for taxpayers has not been successful because of a few limiting factors. One of the limiting factors towards successful implementation of the self assessment system is the lack of taxpayer's

knowledge of the tax system and the use of tax agent service is one of the causes why taxpayers have limited knowledge of the system. Results of the study revealed that most of the taxpayers welcome the change from the official assessment system to self assessment system. They know and understand their responsibility that they must compute their own tax under this system. Taxpayers also know that they must keep proper records of their business in order to enable the tax officer to conduct the audit.

In addition, tax agents must fully understand this new system and they must fulfill their responsibilities in filling and returning the tax form to IRB.

This study proposed a few recommendations to IRB to increase taxpayers' knowledge and understanding of the new system and IRB should take measures to overcome all the problems that arise to ensure the self assessment system is successfully implemented.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia  
sebagai memenuhi keperluan untuk Ijazah Master Sains

**TANGGAPAN SYARIKAT-SYARIKAT TERPILIH DI PANTAI TIMUR  
MALAYSIA  
TERHADAP PERLAKSANAAN SISTEM PERCUKAIAN TAKSIRAN  
SENDIRI**

Oleh

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Kajian ini bertujuan untuk menyelidik tanggapan dan penerimaan pembayar cukai terhadap pelaksanaan sistem percukaian taksiran sendiri. Sistem cukai taksiran sendiri telah dilaksanakan ke atas pembayar cukai syarikat bermula pada tahun 2001.

Kajian ini melibatkan 210 buah syarikat dari tiga buah negeri di pantai timur iaitu Terengganu, Kelantan dan Pahang. Kajian ini telah menggunakan soal selidik untuk tujuan pengumpulan data.

Dapatan kajian menunjukkan beberapa faktor yang membataskan keberkesanan pelaksanaan taksiran sendiri. Tahap pengetahuan mengenai

sistem percukaian merupakan salah satu faktor yang mempengaruhi tanggapan pembayar cukai. Ianya berpunca daripada penggunaan perkhidmatan agen percukaian menyebabkan pembayar cukai tidak begitu terdedah kepada pengetahuan mengenai sistem percukaian.

Kajian ini juga menunjukkan bahawa pembayar cukai mengalu-alukan perlaksanaan sistem percukaian taksiran sendiri. Sistem ini membolehkan mereka mengetahui, memahami tanggungjawab dan membuat pengiraan sendiri serta menyimpan rekod perakaunan untuk tujuan audit cukai oleh LHDN.

Agen percukaian juga berperanan memahami sepenuhnya sistem taksiran sendiri dan menjalankan tanggungjawab untuk melengkapkan serta menghantar borang taksiran ke LHDN dalam masa yang ditetapkan.

Untuk meningkatkan pengetahuan dan pemahaman pembayar cukai terhadap sistem taksiran sendiri beberapa cadangan telah dibuat. LHDN juga perlu menangani dan mengatasi semua masalah yang timbul untuk memastikan keberkesanan dan kejayaan perlaksanaan sistem taksiran sendiri pada masa akan datang.

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Fakhrudeen, Arishya Nabilah and Aliyah Maisarah for their patience, encouragement and understanding.

## APPROVAL

I certify that an Examination Committee met on 13 March 2008 to conduct the final examination of Graduate Student on her Master of Science thesis entitled "A Perception on Post Implementation of Self Assessment Tax System on Selected Companies in East Coast Malaysia" in accordance with Universiti Pertanian Malaysia (Higher Degree) Act 1980 and Universiti Pertanian Malaysia (Higher Degree) Regulation 1981. The Committee recommends that the candidate be awarded the relevant degree. Members of the Examination Committee are as follows:

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## DECLARATION

I hereby declare that the thesis is based on my original work except for quotations and citations which have been duly acknowledged. I also declare that it has not been previously or concurrently submitted for any other degree at UPM or other institutions.



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**ZAHARAH SALWATI BT BABA**

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## LIST OF ABBREVIATIONS

CEO	- Chief Executive Officer
CY	- Current Year
IRB	- Inland Revenue Board
IRD	- Department of Inland Revenue
ITA	- Income Tax Act
OAS	- Official Assessment System
PY	- Preceding Year
SAS	- Self Assessment System
USA	- United States of America

# CHAPTER 1

## INTRODUCTION

### 1.1 Background of the study

Generally, all incomes of individuals in Malaysia are liable to tax. Taxation is one of the payments that must be paid by all Malaysians to the government based on their taxable income. Organizations in Malaysia depending on their size, legal form and whether it is profit oriented or not, requires that their financial statements be audited to make sure all reported income statement is true. Section 3 of the Income Tax Act 1967 (Act 53) states that tax is charged on all income of any person for each year of assessment accrued in or derived from Malaysia or received in Malaysia from outside Malaysia. Companies need an audited report on financial information from the auditor in order to fill the tax form. The monitoring role of the auditor is performed on behalf of shareholders who have entrusted their assets to the care of company management and company directors. In more recent developments in the application of agency theory to auditing, Gwilliam (1987) reported that the role of the auditor is linked to the stewardship function of management and it has been extended to linking management effort and performance.

Taxation is one of the economic tools that is very important to the government to regulate the economy in Malaysia. One of the objectives is to collect all

incomes to provide funds for the numerous development projects such as schools, hospitals, highways and etc. Barjoyai (1987) pointed that tax is a compulsory payment imposed by the government on wealth from income and other sources to finance the benefits that the taxpayers received.

There are federal tax revenue and non-tax revenue. Federal tax revenue consists of taxes and non-tax revenue consists of income from government commercial undertakings, fines, service fees, road tax, licenses and other contributions from foreign governments and international agencies. In other words, the government uses both revenues from taxation to develop the country for the benefit of Malaysian residents (Singh, 1995).

Malaysian taxation is divided into two, direct and indirect taxation. Direct taxation comprises corporate tax, personal income tax, petroleum income tax, real property gains tax and other direct taxes. Indirect taxation comprises export duties, import duties and surtax, excise tax, sales tax and other indirect taxes. In the early years of development, Malaya only depended on indirect taxes as its main source of revenue. Malaya, like most developing countries, relied heavily on indirect taxes during the early stages of its development (Musgrave, 1987). Taxation is the largest contributor to total revenue in Malaysia. In 2005, RM 75,335 million (71.2%) came from tax revenue and in year

2006 it is expected to increase to RM 80,425 million<sup>1</sup>. Tax revenue is the largest contributor to government revenue based on the economic growth (Kasipillai & Shanmugam, 1997).

A few strategies have been used to improve tax administration in Malaysia by upgrading the efficiency of the Inland Revenue Board (IRB). The Department of Inland Revenue (IRD) has become a statutory board on March 1, 1996 and now it is formally known as The Inland Revenue Board of Malaysia (IRB). The IRB was established by the Inland Revenue Board Act 1995 to upgrade the organization's role in the formulation of new policies for both private and public sectors in addition to its current role of tax collection and compliance enforcement. Another strategy is to change the current taxation system to a more efficient system.

In the 1999 Budget, the Finance Minister has announced that major changes will be made in the tax system. The former system known as Official Assessment System (OAS) will be replaced by the new system called the Self Assessment System (SAS). The Government has been implementing a SAS in stages: companies - 2001, business, partnerships and cooperatives and salaried individuals - 2004.

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<sup>1</sup> Economies Report 2005/2006



At the same time assessment made on a preceding year basis will be replaced with a current year assessment with effect from year of assessment 2000<sup>2</sup>. SAS is more efficient compared to OAS (Wong, 1999).

Several countries have used the SAS in their tax administration such as USA (1940), Japan (1947), Sri Lanka (1972), Pakistan (1979), Indonesia (1984), Australia (1986-1987), New Zealand (1988) and United Kingdom (1996-1997). All these countries have used SAS and also set their standard for SAS. According to Pollock (1991), SAS is the most radical way to save tax department labor and cut down on tax evasion. This system is easy to understand compared to the old system which is more costly and need more staff to do the audit work. It also increases total revenue (Cheung et al, 1995 and Ishi, 1993).

Before the announcement by the Finance Minister, tax assessment has been the subject of the considerable discussion and debate by accountants, economists, professors and lawyers. Arguably this is because of the considerable amount of time and money that has to be spent in complying with the requirements of income tax law, from the basic keeping of proper accounts to the time spent in negotiating the tax assessment with tax officials.

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<sup>2</sup> This will be discussed in detail in Chapter 2